

**CONDENSED CONSOLIDATED INTERIM
FINANCIAL STATEMENTS**

MASRAF AL RAYAN (Q.P.S.C.)

31 MARCH 2017

Masraf Al Rayan (Q.P.S.C.)

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

31 March 2017

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INDEPENDENT AUDITOR'S REPORT ON REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS TO THE BOARD OF DIRECTORS OF MASRAF AL RAYAN (Q.P.S.C.)

Introduction

We have reviewed the accompanying 31 March 2017 condensed consolidated interim financial statements of Masraf Al Rayan (Q.P.S.C.) (the 'Bank') and its subsidiaries (together referred to as the 'Group'), which comprise:

- the condensed consolidated statement of financial position as at 31 March 2017;
- the condensed consolidated income statement for the three month period ended 31 March 2017;
- the condensed consolidated statement of changes in equity for the three month period ended 31 March 2017;
- the condensed consolidated statement of cash flows for the three month period ended 31 March 2017; and
- notes to the condensed consolidated interim financial statements.

The Board of Directors of the Bank is responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ('AAOIFI') and applicable provisions of the Qatar Central Bank regulations ('QCB regulations'). Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410, "*Review of Interim Financial Information Performed by the Independent Auditor of the Entity*". A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Auditing Standards for Islamic Financial Institutions and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying 31 March 2017 condensed consolidated interim financial statements are not prepared, in all material respects, in accordance with Financial Accounting Standards issued by AAOIFI and applicable provisions of the Qatar Central Bank regulations.

24 April 2017
Doha
State of Qatar

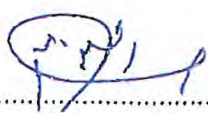
Gopal Balasubramaniam
KPMG
Auditor's Registration No. 251

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2017

	Notes	31 March 2017 (Reviewed)	31 December 2016 (Audited)	31 March 2016 (Reviewed)
ASSETS				
Cash and balances with Qatar Central Bank		3,192,101	3,126,085	2,831,847
Due from banks		7,507,003	5,692,239	3,531,786
Financing assets	8	67,511,249	67,634,561	65,433,806
Investment securities	9	15,032,839	14,012,110	14,250,424
Investment in associates		526,385	508,560	476,889
Fixed assets		149,809	148,194	148,446
Other assets		458,693	408,986	567,458
TOTAL ASSETS		94,378,079	91,530,735	87,240,656
LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS AND EQUITY				
LIABILITIES				
Due to banks	10	16,464,041	19,059,705	17,978,594
Customer current accounts		7,384,672	10,533,627	6,374,551
Other liabilities		2,953,878	1,573,592	1,863,294
TOTAL LIABILITIES		26,802,591	31,166,924	26,216,439
EQUITY OF INVESTMENT ACCOUNT HOLDERS	11	55,689,179	47,490,298	49,753,271
EQUITY				
Share capital	12	7,500,000	7,500,000	7,500,000
Legal reserve	12	1,862,926	1,862,926	1,447,869
Risk reserve	12	1,345,733	1,345,733	1,136,540
Fair value reserves	12	(1,738)	1,983	(1,582)
Foreign currency translation reserve	12	(14,040)	(14,942)	(3,025)
Other reserves	12	107,146	107,146	80,468
Retained earnings		912,322	1,902,070	1,100,831
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE BANK		11,712,349	12,704,916	11,261,101
Non-controlling interest	13	173,960	168,597	9,845
TOTAL EQUITY		11,886,309	12,873,513	11,270,946
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS AND EQUITY		94,378,079	91,530,735	87,240,656

These condensed consolidated interim financial statements were approved by the Board of Directors on 24 April 2017 and were signed on its behalf by:



 Dr. Hussain Ali Al Abdulla
 Chairman and Managing Director



 Adel Mustafawi
 Group Chief Executive Officer

The attached notes 1 to 18 form an integral part of these condensed consolidated interim financial statements

CONDENSED CONSOLIDATED INCOME STATEMENT
For the Three-Month Period Ended 31 March 2017

	Notes	For the Three-Month Period Ended 31 March	
		2017 (Reviewed)	2016 (Reviewed)
Net income from financing activities		740,283	625,227
Net income from investing activities		156,477	134,487
Total net income from financing and investing activities		896,760	759,714
Fee and commission income		68,410	63,495
Fee and commission expense		(609)	(272)
Net fee and commission income		67,801	63,223
Foreign exchange gain		24,800	46,095
Share of results of associates		20,861	19,287
Gain on sale of investment in an associate		-	46,536
Other income		3,446	2,707
TOTAL INCOME		1,013,668	937,562
Staff costs		(82,437)	(68,598)
Depreciation		(5,021)	(4,007)
Other expenses		(53,759)	(47,964)
Finance expense		(85,830)	(87,458)
TOTAL EXPENSES		(227,047)	(208,027)
Net recoveries and reversals on financing assets	8	564	5,571
Net impairment losses on investment securities	9	-	(260)
PROFIT FOR THE PERIOD BEFORE RETURN TO INVESTMENT ACCOUNT HOLDERS		787,185	734,846
Less: Return to investment account holders		(273,746)	(188,620)
PROFIT BEFORE TAX FOR THE PERIOD		513,439	546,226
Tax expense		(325)	(561)
NET PROFIT FOR THE PERIOD		513,114	545,665
Net profit for the period attributable to:			
Equity holders of the Bank		510,252	545,526
Non-controlling interests		2,862	139
		513,114	545,665
BASIC AND DILUTED EARNINGS PER SHARE (QAR)	15	0.680	0.727

The attached notes 1 to 18 form an integral part of these condensed consolidated interim financial statements

Masraf Al Rayan (Q.P.S.C.)

QAR '000s

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Three-Month Period Ended 31 March 2017

	Share capital	Legal reserve	Risk reserve	Fair value reserves	Foreign currency translation reserve	Other reserves	Retained earnings	Total equity attributable to equity holders of the Bank	Non-controlling interests	Total equity
Balance at 1 January 2017 (Audited)	7,500,000	1,862,926	1,345,733	1,983	(14,942)	107,146	1,902,070	12,704,916	168,597	12,873,513
Change in foreign currency translation reserve	-	-	-	-	(106,387)	-	-	(106,387)	-	(106,387)
Net gain on hedging of net investment in a foreign subsidiary	-	-	-	-	107,289	-	-	107,289	-	107,289
Fair value reserve movement (Note 9)	-	-	-	(3,721)	-	-	-	(3,721)	-	(3,721)
Profit for the period	-	-	-	-	-	-	510,252	510,252	2,862	513,114
Dividend paid (Note 12g)	-	-	-	-	-	-	(1,500,000)	(1,500,000)	-	(1,500,000)
Net movement in non-controlling interest	-	-	-	-	-	-	-	-	2,501	2,501
Balance at 31 March 2017 (Reviewed)	7,500,000	1,862,926	1,345,733	(1,758)	(14,040)	107,146	912,322	11,712,349	173,960	11,886,309
Balance at 1 January 2016 (Audited)	7,500,000	1,447,869	1,136,540	12,590	(1,479)	80,468	1,867,805	12,043,793	314,430	12,358,223
Change in foreign currency translation reserve	-	-	-	-	(84,126)	-	-	(84,126)	-	(84,126)
Net gain on hedging of net investment in a foreign subsidiary	-	-	-	-	82,580	-	-	82,580	-	82,580
Fair value reserve movement (Note 9)	-	-	-	(14,172)	-	-	-	(14,172)	-	(14,172)
Profit for the period	-	-	-	-	-	-	545,526	545,526	139	545,665
Dividend paid (Note 12g)	-	-	-	-	-	-	(1,312,500)	(1,312,500)	-	(1,312,500)
Net movement in non-controlling interest	-	-	-	-	-	-	-	-	(304,724)	(304,724)
Balance at 31 March 2016 (Reviewed)	7,500,000	1,447,869	1,136,540	(1,582)	(3,025)	80,468	1,100,831	11,261,101	9,845	11,270,946

The attached notes 1 to 18 form an integral part of these condensed consolidated interim financial statements

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the Three-Month Period Ended 31 March 2017

	<i>For the Three-Month Period Ended 31 March</i>	
	<i>Notes</i>	<i>2016 (Reviewed)</i>
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax for the period	513,439	546,226
Adjustments for:		
Net recoveries and reversals on financing assets	(564)	(5,571)
Net impairment losses on investment securities	-	260
Fair value gain on investment securities carried as fair value through income statement	(89)	(980)
Unrealized gain on revaluation of Shari'a compliant risk management instruments	(1,797)	(5,460)
Depreciation	5,021	4,007
Net (gain) / loss on sale of investment securities	(2,421)	882
Dividend income	(6,219)	(4,988)
Share of results of associates	(20,861)	(19,287)
Gain on sale of investment in an associate	-	(46,536)
Amortisation of premium and discount on investment securities	(389)	(333)
Employees' end of service benefit provisions	1,426	1,383
Profit before changes in operating assets and liabilities	487,546	469,603
Change in reserve account with Qatar Central Bank	(280,509)	(24,182)
Change in due from banks	(364,050)	-
Change in financing assets	122,524	(2,860,391)
Change in other assets	(50,857)	(152,171)
Change in due to banks	(2,595,664)	4,634,003
Change in customer current accounts	(3,148,955)	190,789
Change in other liabilities	(107,653)	(360,082)
	(5,937,618)	1,897,569
Dividend received	6,219	4,988
Employees' end of service benefits paid	(263)	(60)
Net cash (used in) / from operating activities	(5,931,662)	1,902,497
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of investment securities	(4,165,599)	(156,804)
Proceed from sale / redemption of investment securities	3,153,835	312,563
Acquisition of fixed assets	(6,249)	(5,984)
Proceeds from sale of fixed assets	39	-
Dividend received from associates	4,000	12,040
Net cash (used in) / from investing activities	(1,013,974)	161,815
CASH FLOWS FROM FINANCING ACTIVITIES		
Change in equity of investment account holders	8,199,029	314,343
Dividends paid	(10,602)	(1,095,913)
Net movement in non-controlling interest	2,501	(304,724)
Net cash from / (used in) financing activities	8,190,928	(1,086,294)
Net increase in cash and cash equivalents	1,245,292	978,018
Cash and cash equivalents at 1 January	6,451,850	2,779,011
NON-CASH ITEMS		
Investment in subsidiaries reclassified to investment securities	-	230,092
Effects of exchange rate changes on cash and cash equivalents held	(9,071)	18,157
Cash and cash equivalents at 31 March	16	4,005,278

The attached notes 1 to 18 form an integral part of these condensed consolidated interim financial statements

Masraf Al Rayan (Q.P.S.C.)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS For the Three-Month Period Ended 31 March 2017

1 REPORTING ENTITY

Masraf Al Rayan (Q.P.S.C.) (“Masraf” or “the Bank”) is an entity domiciled in the State of Qatar and was incorporated on 4 January 2006 as a Qatari Public Shareholding Company under Qatar Commercial Companies’ Law No. 5 of 2002, as amended by Qatar Commercial Companies’ Law No. 11 of 2015, under decision No. 11 of 2006. The commercial registration number of the Bank is 32010. The address of the Bank’s registered office is at P.O. Box 28888, Grand Hamad Steet, Doha, Qatar. The condensed consolidated interim financial statements of the Bank for the three-month period ended 31 March 2017 comprise the Bank and its subsidiaries (together referred to as “the Group” and individually as “Group entities”). The Group is primarily involved in Islamic banking, financing, investing and brokerage activities, and has 13 branches in Qatar. The Parent Company / Ultimate Controlling Party of the Group is Masraf Al Rayan.

The principal subsidiaries of the Group are as follows:

<i>Entity's name</i>	<i>Country of incorporation</i>	<i>Entity's capital</i>	<i>Entity's activities</i>	<i>Effective percentage of ownership</i>	
				<i>31 March 2017</i>	<i>31 December 2016</i>
Al Rayan Investment L.L.C.	Qatar	USD 100,000,000	Investment banking	100.0%	100.0%
Al Rayan Financial Brokerage ¹	Qatar	QAR 50,000,000	Financial brokerage	100.0%	100.0%
Al Rayan (UK) Limited ²	UK	GBP 100,000,000	Investment activities	70.0%	70.0%
Al Rayan Partners	Qatar	QAR 10,000,000	Real estate consulting	100.0%	100.0%
Lusail Waterfront Investment Co.	Cayman Islands	USD 50,000	Investment activities	100.0%	100.0%

¹ On 28 December 2016, the Qatar Financial Markets Authority (“QFMA”) approved to freeze Al Rayan Financial Brokerage’s (“ARFB”) license for two years. The operations of ARFB has ceased from 12 January 2017.

² Al Rayan (UK) Limited owns 98.34% of its subsidiary, Al Rayan Bank PLC (formerly known as Islamic Bank of Britain PLC). Effectively, the Bank owns 68.84% of Al Rayan Bank PLC.

The Bank and two other local unlisted banks, namely Barwa Bank Q.S.C. and International Bank of Qatar Q.S.C., announced on 19 December 2016 that they have entered into initial negotiations regarding a potential merger of the three banks. The potential merger is subject to the approval of the Qatar Central Bank (“QCB”), the QFMA, the Ministry of Economy and Commerce and other relevant official bodies in the State of Qatar, and the approval of the shareholders in each of the three banks after completion of a detailed legal and financial due diligence. If the merger is approved, the new merged entity will maintain all its dealings in compliance with Shari’a principles.

As of reporting date, a committee composed of the management of the three banks has been established in order to oversee the merger according to an initial timeline which has been approved by the Boards of Directors of the three banks.

2 BASIS OF PREPARATION

The condensed consolidated interim financial statements have been prepared in accordance with Financial Accounting Standards (“FAS”) issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (“AAOIFI”) and the applicable provisions of Qatar Central Bank (“QCB”) regulations. In line with the requirements of AAOIFI, for matters that are not covered by FAS, the Group uses the guidance from the relevant International Financial Reporting Standards (“IFRSs”) as issued by the International Accounting Standards Board (“IASB”). Accordingly, the condensed consolidated interim financial statements have been prepared in accordance with the guidance provided by International Accounting Standard 34 – ‘Interim Financial Reporting’.

The condensed consolidated interim financial statements do not contain all information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements as at 31 December 2016. In addition, results for the three-month period ended 31 March 2017 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2017.

The condensed consolidated interim financial statements have been prepared on the historical cost basis, except for the measurement at fair value of financial investments classified as “investments at fair value through equity”, “investments at fair value through income statement” and Shari’a-compliant risk management instruments.

Masraf Al Rayan (Q.P.S.C.)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS For the Three-Month Period Ended 31 March 2017

2 BASIS OF PREPARATION (continued)

The condensed consolidated interim financial statements are presented in Qatari Riyals (“QAR”), which is the Bank’s functional and presentational currency, and all values are rounded to the nearest QAR thousand except when otherwise indicated. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

3 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the condensed consolidated interim financial statements are consistent with those used in the preparation of the consolidated financial statements for the year ended 31 December 2016.

New standards and interpretations

New standards, amendments and interpretations effective from 1 January 2017

There are no new standards, amendments and interpretations effective from 1 January 2017.

New standards, amendments and interpretations issued but not yet effective

International Financial Reporting Standard No. 9 (IFRS 9): Financial Instruments

The final version of IFRS 9 was issued in July 2014, replacing the earlier versions of introducing new classification and measurement requirements (issued in 2009 and 2010) and a new hedge accounting model (issued in 2013) and has an effective date of 1 January 2018. IFRS 9 will replace IAS 39 Financial Instruments: Recognition and Measurement and introduces new requirements for the classification and measurement of financial assets and financial liabilities, a new model based on expected credit losses for recognising loan loss provisions and provides for simplified hedge accounting by aligning hedge accounting more closely with an entity’s risk management methodology.

The application of IFRS 9 may have significant impact on amounts reported in the condensed consolidated interim financial statements and will result in more extensive disclosures in the condensed consolidated interim financial statements. However, the Group is currently in the process of evaluating and implementing the required changes in its systems, policies and processes to comply with IFRS 9 and regulatory requirements, and hence it is not practical to disclose a reliable quantitative impact until the implementation programme is further advanced.

4 FINANCIAL RISK MANAGEMENT

The Group's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements as at and for the year ended 31 December 2016.

(i) *Valuation of financial instruments*

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument’s valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
For the Three-Month Period Ended 31 March 2017

4 FINANCIAL RISK MANAGEMENT (continued)

(i) *Valuation of financial instruments (continued)*

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Group determines fair values using valuation techniques.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist, Black-Scholes and polynomial option pricing models and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark profit rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date, which would have been determined by market participants acting at arm's length.

(ii) *Financial asset and liability classification*

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
31 March 2017 (Reviewed)				
Financial assets				
Shari'a-compliant risk management instruments	-	17,499	-	17,499
Investment securities	162,366	91,051	-	253,417
	<u>162,366</u>	<u>108,550</u>	<u>-</u>	<u>270,916</u>
Financial liabilities				
Shari'a-compliant risk management instruments	-	14,317	-	14,317
	<u>-</u>	<u>14,317</u>	<u>-</u>	<u>14,317</u>
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
31 December 2016 (Audited)				
Financial assets				
Shari'a-compliant risk management instruments	-	18,649	-	18,649
Investment securities	62,962	87,486	-	150,448
	<u>62,962</u>	<u>106,135</u>	<u>-</u>	<u>169,097</u>
Financial liabilities				
Shari'a-compliant risk management instruments	-	17,264	-	17,264
	<u>-</u>	<u>17,264</u>	<u>-</u>	<u>17,264</u>

The fair values of financial assets and financial liabilities carried at amortized cost are equal to the carrying value, hence, not included in the fair value hierarchy table, except for investment securities for which the fair value amounts to QAR 2,614 million (31 December 2016: QAR 2,693 million), which is derived using Level 1 fair value hierarchy. The details of the Group's classification of financial assets and liabilities are disclosed in Note 6.

Investment securities totalling QAR 4,699 thousand are carried at cost (31 December 2016: QAR 4,694 thousand).

During the reporting periods 31 March 2017 and 31 December 2016, there were no transfers among Levels 1, 2 and 3 fair value measurements.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
For the Three-Month Period Ended 31 March 2017

5 USE OF ESTIMATES AND JUDGMENTS

Key sources of estimation uncertainty

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(i) *Allowances for credit losses*

Assets accounted for at amortised cost are evaluated for impairment on a basis described in significant accounting policies.

The specific counterparty component of the total allowances for impairment applies to financial assets evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Credit Risk function. Minimum impairment on specific counter parties are determined based on the QCB regulations.

(ii) *Determining fair values*

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in significant accounting policies. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

6 FAIR VALUE AND CLASSIFICATION OF FINANCIAL INSTRUMENTS

	<i>Fair value through income statement</i>	<i>Fair value through equity</i>	<i>Amortised cost</i>	<i>Total carrying amount</i>	<i>Fair value</i>
31 March 2017 (Reviewed)					
Cash and balances with QCB	-	-	3,192,101	3,192,101	3,192,101
Due from banks	-	-	7,507,003	7,507,003	7,507,003
Financing assets	-	-	67,511,249	67,511,249	67,511,249
Investment securities:					
- Measured at fair value	40,965	217,151	-	258,116	258,116
- Measured at amortised cost	-	-	14,774,723	14,774,723	14,839,086
Other assets	-	-	299,815	299,815	299,815
Shari'a-compliant risk management instruments	17,499	-	-	17,499	17,499
	<u>58,464</u>	<u>217,151</u>	<u>93,284,891</u>	<u>93,560,506</u>	<u>93,624,869</u>
Due to banks	-	-	16,464,041	16,464,041	16,464,041
Customer current accounts	-	-	7,384,672	7,384,672	7,384,672
Other liabilities	-	-	2,319,258	2,319,258	2,319,258
Equity of investment account holders	-	-	55,689,179	55,689,179	55,689,179
Shari'a-compliant risk management instruments	14,317	-	-	14,317	14,317
	<u>14,317</u>	<u>-</u>	<u>81,857,150</u>	<u>81,871,467</u>	<u>81,871,467</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
For the Three-Month Period Ended 31 March 2017

6 FAIR VALUE AND CLASSIFICATION OF FINANCIAL INSTRUMENTS (continued)

	<i>Fair value through income statement</i>	<i>Fair value through equity</i>	<i>Amortised cost</i>	<i>Total carrying amount</i>	<i>Fair value</i>
31 December 2016 (Audited)					
Cash and balances with QCB	-	-	3,126,085	3,126,085	3,126,085
Due from banks	-	-	5,692,239	5,692,239	5,692,239
Financing assets	-	-	67,634,561	67,634,561	67,634,561
Investment securities:					
- Measured at fair value	4,471	150,671	-	155,142	155,142
- Measured at amortised cost	-	-	13,856,968	13,856,968	13,917,718
Other assets	-	-	269,312	269,312	269,312
Shari'a-compliant risk management instruments	18,649	-	-	18,649	18,649
	<u>23,120</u>	<u>150,671</u>	<u>90,579,165</u>	<u>90,752,956</u>	<u>90,813,706</u>
Due to banks	-	-	19,059,705	19,059,705	19,059,705
Customer current accounts	-	-	10,533,627	10,533,627	10,533,627
Other liabilities	-	-	849,809	849,809	849,809
Equity of investment account holders	-	-	47,490,298	47,490,298	47,490,298
Shari'a-compliant risk management instruments	17,264	-	-	17,264	17,264
	<u>17,264</u>	<u>-</u>	<u>77,933,439</u>	<u>77,950,703</u>	<u>77,950,703</u>

7 OPERATING SEGMENTS

The Group has four reportable segments, as described below, which are the Group's strategic divisions. The strategic divisions offer different products and services, and are managed separately based on the Group's management and internal reporting structure. For each of the strategic divisions, the management reviews internal reports periodically. The following summary describes the operations in each of the Group's reportable segments.

- Corporate Banking provides an extensive range of Islamic funded and non-funded credit facilities, deposit services, investment advisory, currency exchange facilities, profit rate swaps, financing syndication and other services to Corporate, Commercial and Multinational Customers.
- Retail Banking provides investment accounts services, credit card and Islamic financing to retail and individual customers.
- Asset Management has two distinct functions. Firstly, the management of Masraf Al Rayan's portfolio of listed and private equities and funds, strategic investments, income producing instruments such as sukuks and real estate investments. Secondly, the development and operation of Masraf Al Rayan's investment products, asset management and investment placement business.
- International Operations includes loans, deposits and other products and services with corporate and individual customers in the Group's international locations.

Unallocated assets, liabilities and revenues are related to some central functions and non-core business operations, like common property & equipment, cash functions, development projects related payables etc.

Information regarding the results, assets and liabilities of each reportable segment is included below. Performance is measured based on segment profit before tax, as included in the internal management reports that are reviewed by the management. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
For the Three-Month Period Ended 31 March 2017

7 OPERATING SEGMENTS (continued)

Information about operating segments

31 March 2017 (Reviewed)	<i>Corporate Banking</i>	<i>Retail Banking</i>	<i>Asset Management</i>	<i>International operations</i>	<i>Unallocated</i>	<i>Total</i>
<i>External revenue:</i>						
Total income from financing and investing activities	644,516	193,883	9,393	48,968	-	896,760
Net fee and commission income	58,990	-	4,800	4,011	-	67,801
Foreign exchange gain / (loss)	24,742	-	(19)	77	-	24,800
Share of results of associates	-	-	-	-	20,861	20,861
Gain on sale of an associate	-	-	-	-	-	-
Other income	-	-	-	-	3,446	3,446
Total segment revenue	728,248	193,883	14,174	53,056	24,307	1,013,668
<i>Other material non-cash items:</i>						
Net recoveries and reversals on financing assets	831	-	-	(267)	-	564
Net impairment losses on investment securities	-	-	-	-	-	-
Reportable segment profit before tax	440,938	141,765	8,907	9,180	(87,351)	513,439
Reportable segment assets	70,962,381	15,360,788	483,169	6,702,113	869,628	94,378,079
Reportable segment liabilities	20,191,324	2,232,171	8,992	1,661,713	2,708,391	26,802,591
Reportable segment equity of investment account holders	38,220,766	12,986,852	-	4,481,561	-	55,689,179

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
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7 OPERATING SEGMENTS (continued)

Information about operating segments (continued)

31 March 2016 (Reviewed)	Corporate Banking	Retail Banking	Asset Management	International operations	Unallocated	Total
<i>External revenue:</i>						
Total income from financing and investing activities	558,452	150,236	6,395	44,631	-	759,714
Net fee and commission income	52,691	-	7,780	2,752	-	63,223
Foreign exchange gain	46,095	-	-	-	-	46,095
Share of results of associates	-	-	-	-	19,287	19,287
Gain on sale of an associate	-	-	-	-	46,536	46,536
Other income	-	-	-	-	2,707	2,707
Total segment revenue	657,238	150,236	14,175	47,383	68,530	937,562
<i>Other material non-cash items:</i>						
Net recoveries and reversals on financing assets	6,066	-	-	(495)	-	5,571
Net impairment losses on investment securities	(260)	-	-	-	-	(260)
Reportable segment profit before tax	411,507	124,617	9,052	24,623	(23,573)	546,226
Reportable segment assets	67,309,670	12,698,388	468,468	5,667,108	1,097,022	87,240,656
Reportable segment liabilities	21,160,819	2,093,387	19,123	1,504,872	1,438,238	26,216,439
Reportable segment equity of investment account holders	35,705,055	10,480,384	-	3,567,832	-	49,753,271

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
For the Three-Month Period Ended 31 March 2017

8 FINANCING ASSETS

	<i>31 March 2017 (Reviewed)</i>	<i>31 December 2016 (Audited)</i>	<i>31 March 2016 (Reviewed)</i>
(a) By type			
Receivables and balances from financing activities:			
Murabaha	54,599,031	55,519,712	55,878,975
Ijarah	9,770,950	8,875,993	7,629,742
Istisna'a	1,234,072	1,856,997	1,563,346
Musharaka	5,019,352	4,661,716	4,543,704
Others	<u>306,477</u>	<u>317,071</u>	<u>462,505</u>
Total financing assets	<u>70,929,882</u>	<u>71,231,489</u>	<u>70,078,272</u>
Deferred profit	(3,368,683)	(3,546,468)	(4,596,794)
Allowance for impairment and profit in suspense (note b)	<u>(49,950)</u>	<u>(50,460)</u>	<u>(47,672)</u>
Net financing assets	<u>67,511,249</u>	<u>67,634,561</u>	<u>65,433,806</u>

The total non-performing financing assets at 31 March 2017 amounted to QAR 110,463 thousand representing 0.16% of the gross financing assets (31 December 2016: QAR 112,745 thousand representing 0.16% of the gross financing assets; 31 March 2016: QAR 64,943 thousand representing 0.09% of the gross financing assets).

Specific impairment of financing assets includes QAR 1,891 thousand of profit in suspense (31 December 2016: QAR 1,918 thousand; 31 March 2016: QAR 3,516 thousand).

(b) Movement in the allowance for impairment and profit in suspense on financing assets

	<i>31 March 2017 (Reviewed)</i>	<i>31 December 2016 (Audited)</i>	<i>31 March 2016 (Reviewed)</i>
Balance as at 1 January	50,460	53,450	53,450
Charge for the period / year	770	30,245	479
Recoveries / reversals during the period / year	(1,361)	(30,308)	(6,066)
Write off during the period / year	-	(1,656)	-
Effect of foreign currency movement	<u>81</u>	<u>(1,271)</u>	<u>(191)</u>
Balance at 31 March / 31 December	<u>49,950</u>	<u>50,460</u>	<u>47,672</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
For the Three-Month Period Ended 31 March 2017

9 INVESTMENT SECURITIES

	<i>31 March 2017 (Reviewed)</i>	<i>31 December 2016 (Audited)</i>	<i>31 March 2016 (Reviewed)</i>
<i>Investments classified as fair value through income statement</i>			
Investments classified as held for trading (Quoted)			
• Debt type investments - Fixed profit rate	<u>40,965</u>	<u>4,471</u>	<u>61,741</u>
	<u>40,965</u>	<u>4,471</u>	<u>61,741</u>
<i>Debt-type investments classified as amortised cost</i>			
Fixed profit rate – Quoted	1,274,386	1,356,800	1,365,165
Floating profit rate – Quoted	41,866	41,866	65,438
Government of Qatar Sukuk – Quoted	1,258,955	1,258,786	1,275,628
Government of Qatar Sukuk – Unquoted	12,225,000	11,225,000	11,324,315
Less: Allowance for impairment	<u>(25,484)</u>	<u>(25,484)</u>	<u>(25,484)</u>
	<u>14,774,723</u>	<u>13,856,968</u>	<u>14,005,062</u>
<i>Investments classified as fair value through equity</i>			
• Equity type investments			
- Quoted	89,181	26,438	97,802
- Unquoted	95,750	92,180	85,819
• Debt type investments - Fixed profit rate	<u>32,220</u>	<u>32,053</u>	<u>-</u>
	<u>217,151</u>	<u>150,671</u>	<u>183,621</u>
	<u>15,032,839</u>	<u>14,012,110</u>	<u>14,250,424</u>

The Group has recognized impairment loss for certain equity-type investments classified as fair value through equity during the period totalling QAR nil (31 March 2016: QAR 260 thousand), due to significant and prolonged reduction in fair values.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
For the Three-Month Period Ended 31 March 2017

9 INVESTMENT SECURITIES (continued)

The cumulative change in fair value of investments designated as fair value through equity during the period / year is as follows:

	<i>31 March 2017 (Reviewed)</i>	<i>31 December 2016 (Audited)</i>	<i>31 March 2016 (Reviewed)</i>
<i>Positive fair value:</i>			
Balance at 1 January	6,538	12,738	12,738
Net change in fair value	1,639	2,275	594
Transferred to consolidated income statement on sale	(823)	(4,603)	-
Transferred to consolidated income statement due to impairment	-	-	-
Share of other comprehensive income of associates	965	(3,872)	(3,872)
Net fair value movement	1,781	(6,200)	(3,278)
Balance at 31 March / 31 December	<u>8,319</u>	<u>6,538</u>	<u>9,460</u>
<i>Negative fair value:</i>			
Balance at 1 January	(4,555)	(148)	(148)
Net change in fair value	(5,502)	(5,755)	(11,154)
Transferred to consolidated income statement on sale	-	221	-
Transferred to consolidated income statement due to impairment	-	1,127	260
	(5,502)	(4,407)	(10,894)
Balance at 31 March / 31 December	<u>(10,057)</u>	<u>(4,555)</u>	<u>(11,042)</u>
Total fair value at 31 March / 31 December	<u>(1,738)</u>	<u>1,983</u>	<u>(1,582)</u>

10 DUE TO BANKS

	<i>31 March 2017 (Reviewed)</i>	<i>31 December 2016 (Audited)</i>	<i>31 March 2016 (Reviewed)</i>
Current accounts	1,078,954	26,500	73,528
Commodity murabaha payable	596,269	1,768,713	2,995,031
Short-term Murabaha facilities from banks	13,332,718	1,638,125	910,125
Wakala payable	1,456,100	15,626,367	13,999,910
	<u>16,464,041</u>	<u>19,059,705</u>	<u>17,978,594</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
For the Three-Month Period Ended 31 March 2017

11 EQUITY OF INVESTMENT ACCOUNT HOLDERS

	<i>31 March 2017 (Reviewed)</i>	<i>31 December 2016 (Audited)</i>	<i>31 March 2016 (Reviewed)</i>
Saving accounts	5,472,485	5,145,444	3,650,683
Term accounts	46,008,399	37,874,166	41,160,904
Short-term investment accounts	3,995,565	4,234,725	4,789,658
Profit payable to equity of investment account holders	212,799	235,884	152,090
Share in the fair value reserves	<u>(69)</u>	<u>79</u>	<u>(64)</u>
	<u>55,689,179</u>	<u>47,490,298</u>	<u>49,753,271</u>

12 OWNERS' EQUITY

(a) Share capital

	<i>31 March 2017 (Reviewed)</i>	<i>31 December 2016 (Audited)</i>	<i>31 March 2016 (Reviewed)</i>
<i>Authorised</i> 750,000,000 shares at QAR 10 each	<u>7,500,000</u>	<u>7,500,000</u>	<u>7,500,000</u>

(b) Legal reserve

	<i>31 March 2017 (Reviewed)</i>	<i>31 December 2016 (Audited)</i>	<i>31 March 2016 (Reviewed)</i>
Balance at 1 January	1,862,926	1,447,869	1,447,869
Transfer from retained earnings	<u>-</u>	<u>415,057</u>	<u>-</u>
Balance at 31 March / 31 December	<u>1,862,926</u>	<u>1,862,926</u>	<u>1,447,869</u>

According to QCB Law No. 13 of 2012, 10% of the profit for the year is required to be transferred to the legal reserve until the reserve equals 100% of paid up capital. No transfer has been made for the period ended 31 March 2017 as Masraf will transfer the required amount by 31 December 2017.

(c) Risk reserve

In accordance with QCB circular 102/2011, risk reserve has been created to cover contingencies on both the public and private sector financing activities, with a minimum requirement of 2.5% of the total private sector exposure granted by Masraf and its branches inside and outside Qatar after the exclusion of the specific provisions and profit in suspense. The finance provided to/or secured by the Ministry of Finance or finance against cash guarantees are excluded from the gross direct financing, which should be appropriated from shareholders' profit according to QCB instructions. No transfer has been made for the period ended 31 March 2017 as Masraf will transfer the required amount by 31 December 2017.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
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12 OWNERS' EQUITY (continued)

(d) Fair value reserves

This reserve comprises changes in fair value of investments designated as fair value through equity.

	<i>31 March 2017 (Reviewed)</i>	<i>31 December 2016 (Audited)</i>	<i>31 March 2016 (Reviewed)</i>
Balance at 1 January	1,983	12,590	12,590
Net unrealised losses	(3,932)	(3,401)	(10,624)
Transferred to consolidated income statement on sale	(823)	(4,382)	-
Transferred to consolidated income statement due to impairment	-	1,127	260
Share of other comprehensive income of associates	965	(3,872)	(3,872)
Share of equity of investment account holders in the fair value reserve	69	(79)	64
Net fair value movement	(3,721)	(10,607)	(14,172)
Balance at 31 March / 31 December (shareholders' share)	<u>(1,738)</u>	<u>1,983</u>	<u>(1,582)</u>

Fair value reserves represent unearned gains / (losses), being not available for distribution unless realised and charged to the condensed consolidated income statement.

(e) Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations as well as from the translation of liabilities and gains and losses on Shari'a-compliant risk management instruments that hedge the Group's net investment in foreign operations.

(f) Other reserves

	<i>31 March 2017 (Reviewed)</i>	<i>31 December 2016 (Audited)</i>	<i>31 March 2016 (Reviewed)</i>
Balance at 1 January	107,416	80,468	80,468
Share of results of associates	-	52,377	-
Dividend from associates transferred to retained earnings	-	(5,418)	-
Other movement	-	(20,281)	-
Balance at 31 March / 31 December	<u>107,416</u>	<u>107,146</u>	<u>80,468</u>

No transfer has been made for the period ended 31 March 2017 as Masraf will transfer the share of results of associates to other reserves by 31 December 2017.

(g) Dividend

On 2 April 2017, the General Assembly approved a cash dividend of 20% of the paid up share capital (2016: 17.5%) amounting to QAR 1,500 million (2016: QAR 1,312.5 million).

13 NON-CONTROLLING INTERESTS

This represents the Group's non-controlling interest in Al Rayan (UK) Limited (30%) and Al Rayan Bank PLC (31.16%) (31 December 2016: Al Rayan (UK) Limited - 30% and Al Rayan Bank PLC - 31.16%).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
For the Three-Month Period Ended 31 March 2017

14 CONTINGENT LIABILITIES AND COMMITMENTS

(a) Capital commitments

The Group has long-term lease agreements for its office premises. The future aggregate minimum lease payments under these lease agreements are as follows:

	<i>31 March 2017 (Reviewed)</i>	<i>31 December 2016 (Audited)</i>	<i>31 March 2016 (Reviewed)</i>
Payable not later than 1 year	26,211	23,709	18,794
Payable later than 1 year and not later than 5 years	<u>83,855</u>	<u>87,124</u>	<u>28,260</u>
	<u>110,066</u>	<u>110,833</u>	<u>47,054</u>

(b) Contingent liabilities

	<i>31 March 2017 (Reviewed)</i>	<i>31 December 2016 (Audited)</i>	<i>31 March 2016 (Reviewed)</i>
Unutilised credit facilities	8,930,302	7,825,568	11,608,721
Guarantees	13,964,504	16,278,696	16,945,499
Letters of credit	<u>2,790,739</u>	<u>3,604,802</u>	<u>6,805,879</u>
	<u>25,685,545</u>	<u>27,709,066</u>	<u>35,360,099</u>

(c) Other undertakings and commitments

	<i>31 March 2017 (Reviewed)</i>	<i>31 December 2016 (Audited)</i>	<i>31 March 2016 (Reviewed)</i>
Profit rate swap	3,793,099	3,718,314	3,954,377
Unilateral promise to buy/sell currencies	<u>29,335,149</u>	<u>21,482,774</u>	<u>27,514,837</u>
	<u>33,128,248</u>	<u>25,201,088</u>	<u>31,469,214</u>

15 BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit for the period by the weighted average number of ordinary shares outstanding during the period.

	<i>For the Three-Month Period Ended 31 March</i>	
	<i>2017 (Reviewed)</i>	<i>2016 (Reviewed)</i>
Profit for the period attributable to equity holders of the Bank	<u>510,252</u>	<u>545,526</u>
Weighted average number of shares outstanding during the period	<u>750,000</u>	<u>750,000</u>
Basic earnings per share (QAR)	<u>0.680</u>	<u>0.727</u>

There were no potentially dilutive shares outstanding at any time during the period. Therefore, the diluted earnings per share are equal to the basic earnings per share.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the Three-Month Period Ended 31 March 2017

16 CASH AND CASH EQUIVALENTS

For the purpose of the condensed consolidated statement of cash flows, cash and cash equivalents comprise the following balances with original maturities of less than three months:

	<i>31 March 2017 (Reviewed)</i>	<i>31 March 2016 (Reviewed)</i>
Cash on hand and balances with QCB excluding cash reserve	545,118	473,492
Due from banks	<u>7,142,953</u>	<u>3,531,786</u>
	<u>7,688,071</u>	<u>4,005,278</u>

17 RELATED PARTIES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties include the significant owners and entities over which the Group and the owners exercise significant influence, directors and executive management of the Group.

Transactions with related parties**(a) Condensed consolidated statement of financial position items**

	<i>31 March 2017 (Reviewed)</i>	<i>31 December 2016 (Audited)</i>	<i>31 March 2016 (Reviewed)</i>
Liabilities			
Equity of investment account holders - customer	<u>1,003,840</u>	<u>998,308</u>	<u>1,145,934</u>

(b) Condensed consolidated income statement items

	<i>For the Three-Month Period Ended 31 March</i>	
	<i>2017 (Reviewed)</i>	<i>2016 (Reviewed)</i>
Return on equity of investment account holders - customer	<u>4,102</u>	<u>1,378</u>

(c) Transactions with key management personnel

Key management personnel and their immediate relatives have transacted with the Group during the period as follows:

	<i>31 March 2017 (Reviewed)</i>	<i>31 December 2016 (Audited)</i>	<i>31 March 2016 (Reviewed)</i>
Financing	<u>1,082</u>	<u>1,039</u>	<u>15,311</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
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17 RELATED PARTIES (continued)

(c) Transactions with key management personnel (continued)

The remuneration of directors and other members of key management during the period were as follows:

	<i>For the Three-Month Period Ended 31 March</i>	
	<i>2017 (Reviewed)</i>	<i>2016 (Reviewed)</i>
Remuneration to Board of Directors including meeting allowances	<u>5,632</u>	<u>4,884</u>
Salaries and other benefits	<u>3,807</u>	<u>4,248</u>

18 COMPARATIVE FIGURES

The comparative figures presented have been reclassified where necessary to preserve consistency with the current period figures. However, such reclassifications did not have any effect on the consolidated net profit or the total consolidated equity for the comparative period.